

# Exhibit 7

# Vanguard Investment Stewardship Insights

## Vanguard's expectations for companies with significant coal exposure

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*Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.*

Vanguard has explained its concerns about climate change and the financial risk it presents to long-term investors.<sup>1</sup> We have outlined expectations for companies where climate change is a material risk: They should have climate-competent boards, robust climate risk oversight and mitigation measures, and effective climate risk disclosure. In this *Insights*, we focus on the risks that coal production and consumption can pose to long-term investors.

### **The diminishing role of coal in the global economy**

Governments, scientists, and NGOs around the world have made clear that burning thermal coal (or energy coal) contributes significantly to greenhouse gas (GHG) emissions and climate change. Coal burning is the most GHG-intensive way to generate electricity,<sup>2</sup> and coal-fired power plants are the single largest contributor of global emissions, accounting for 30% of global CO<sub>2</sub> emissions.<sup>3</sup>

As governments and policymakers around the world seek to address the risk of climate change, many have focused on coal and have committed to phasing out coal power and/or not building new coal-fired power plants.<sup>4</sup> This focus was reaffirmed by the Glasgow Climate Pact, which calls upon countries to accelerate the "efforts towards the phasedown of unabated coal power..."<sup>5</sup>

Anticipated stricter policies and regulatory pressures, coupled with faster growth of renewables that

are increasingly more cost-competitive than coal power, are heightening the risk profile of coal assets. In recent years, activist groups and shareholder proponents have used the proxy voting system to seek greater disclosure of this risk, ask companies to shutter or divest their coal assets, or persuade financial institutions to stop providing financial services to the thermal coal industry and the entities that extract thermal coal from the ground. These developments represent significant risks to shareholder value in carbon-intensive industries.

At the same time, coal has long played a vital role in the global economy and energy mix. It serves as a critical fuel source for power plants that generate electricity for millions of people and businesses, sustains jobs and economic activity in many communities, and contributes tax revenues for governments and returns for shareholders. In some countries, particularly those in emerging markets, coal represents an important natural resource; for some countries, it is a crucial export and contributor to GDP. This reality cannot be overlooked. If companies in these countries were to curtail their coal use dramatically and suddenly, as some shareholder proposals advocate, it could cause significant social and economic disruption and adverse impacts. The transition from coal to cleaner energy sources is complex and will require commitment, investment, and planning from governments as well as from the businesses involved.

**Vanguard's approach to addressing coal-specific risks**

Vanguard's Investment Stewardship team has engaged with companies in carbon-intensive industries, and their boards, over the last several years and has discussed how they oversee climate change risks, including those related to regulation, reputation, technological disruption, litigation, shifts in supply and demand, and physical risks such as extreme weather events.

Because of the threat these changes pose to shareholder value, the team has focused on a subset of utilities and mining companies significantly exposed to thermal coal. Stakeholders have voiced concerns about the business-model resilience of companies that are exposed to thermal coal and their ability to compete with peers who are accelerating adoption of alternative energy sources such as wind, solar, and hydropower. There has also been stock underperformance compared with peers within a subset of these companies in recent years. This is due partly to volatility in commodity price cycles and wholesale electricity prices, as well as to investors' concern about relative future performance given expectations of a gradual decline in coal demand and asset transition risk.

Certain companies and sectors face greater risk from climate change than others. The scientific consensus<sup>6</sup> is that coal is a major contributor of GHG emissions and that its consumption at current levels is incompatible with the Paris Agreement goals. Those goals aim to limit global temperature rise by well below 2°C and to pursue efforts to limit warming to 1.5°C. It is now well-established that coal-related emissions must decline rapidly in the coming years to achieve those goals.

As a result, companies with a business model that relies on uninterrupted and/or unconstrained thermal coal production and use (primarily mining and utility companies) face a range of disproportionately high risks of climate-related actions by governments,

customers, and counterparties. As companies and countries around the world try to reduce their carbon footprint or become carbon neutral, coal-exposed companies will face increased financial, regulatory, legal, and reputational risk.

For example, some financial services companies are phasing out financing of and insurance services to companies with exposure to coal, which can inhibit them from funding continuing operations and future growth opportunities. A continuation of this trend is likely to have a direct impact on long-term value creation. Further, other technologies, such as renewable energy, energy storage solutions, and gas peaking plants are increasingly outcompeting coal power generation on costs, affecting the economics of electricity markets, and influencing demand for coal.

**What we seek to understand from portfolio companies with significant coal exposure**

These risks can translate into stranded assets (assets that have lost their value because of the energy transition), which significantly weigh on financial performance and returns. Therefore, as part of our fiduciary duty to shareholders in the Vanguard funds to support the long-term value of their investments, we seek to understand the actions coal-exposed companies are taking to mitigate this risk.

Specifically, we aim to understand a company's transition plan and ensure value creation through business-model resilience. Since 2015, the goals set forth in the Paris Agreement have become a widely accepted standard for countries and companies aiming to address climate change and have been recently reaffirmed by the Glasgow Climate Pact. Where climate change is a material risk, Vanguard seeks to understand how companies set targets in alignment with these goals. Specifically, we believe that these companies should provide clear disclosures on the following:

**Board-level climate competence**

- Description of relevant skills, experiences, and education/training of directors across material climate-related topics, with clear lines of accountability for risk oversight.
- Articulation of a deep understanding of the current and emerging policy and regulatory environment/framework for these companies in their key reference markets.
- Explanation of how thermal coal remains relevant for a company's customer base and the market it serves over 10, 20, and 30 years.
- Compelling shareholder value proposition in an environment where regulatory requirements and market activity support the implementation of the Paris Agreement or applicable subsequent agreements, and how the company will deliver shareholder value through the transition to that environment.

**Risk mitigation**

- Articulation of how the business is resilient within a 1.5°C limit of global warming as the world progressively moves to net zero emissions, such as by serving a specific market niche or through carbon capture and storage.
- An explanation of how the board oversees the capital allocation process (capital expenditures and operating expenses) in the context of the applicable goals of the Paris Agreement and an expected net-zero transition.
- Where applicable to the company's strategy, emission-reduction initiatives and mix of energy sources to ensure resilience and economic competitiveness (e.g., renewable energy, efficient transport).
- Consideration for responsible transition plans for coal mines and power stations, including site rehabilitation and workers' retraining, to minimize risks of liabilities and litigation and preserve social license to operate with communities, governments, and other stakeholders.

**Effective disclosure**

There is compelling scientific consensus, expert perspective, and global recognition that achieving the Paris Agreement targets will require that companies reduce thermal coal production and/or unabated coal power generation over the coming years and decades. This perspective was acknowledged and reaffirmed by the Glasgow Climate Pact at COP26. We believe that companies should disclose their plans and the rationale for their approach. That includes disclosing timelines and related plans for asset closures and/or diversifying their asset portfolio in line with applicable legal and regulatory requirements to achieve policymakers' stated objectives of a net zero carbon economy.

**Elements of disclosures**

- Clear, comprehensive, compelling disclosures on the expectations outlined above, to allow the market to accurately price securities.
- Regular reporting of climate-related information in line with the Task Force on Climate-related

Financial Disclosure (TCFD) framework and other applicable local standards or codes, on an annual basis or more frequently as needed/appropriate.

- Disclosure on how corporate political involvement and lobbying, directly and through membership in industry associations, adheres to disclosed business strategy in alignment with the Paris Agreement goals.

**Vanguard's index funds approach**

Vanguard index funds are near-permanent owners of securities in thousands of public companies globally. In the case of climate risk, we believe it is better to own, engage, and encourage boards to manage climate risks through the transition to a low-carbon economy than it is to exclude and divest. Investors who rid themselves of carbon-producing assets risk selling them to those who might not want to engage and encourage change. This may not help—and may frustrate—the just and orderly transition to a decarbonized economy that the investor hopes to achieve. By remaining invested in companies and

encouraging them to take positive action on material climate risks, we believe we can deliver long-term, sustainable value for investors, and society at large, without having to divest from those companies.

As part of our investment stewardship program, we will continue to constructively engage with companies to understand their climate risk strategies and mitigation efforts to ensure long-term shareholder value creation through the energy transition. Guided by our proxy voting policies, we may also have the opportunity to express our perspective through proxy voting.

We analyze all shareholder proposals, including those related to climate risk, on a case-by-case basis. When evaluating these proposals, we weigh whether the topic is material to the company, whether it addresses a governance decision or instead encroaches on operational or strategic actions, and whether the company already meets the request.

Outside of shareholder proposals, the Vanguard funds may vote against directors who, in our assessment, have failed to effectively identify, monitor, and manage material risks and business practices that fall under their purview based on committee responsibilities.

<sup>1</sup> Vanguard, 2021. *Climate-Related Proposals*, January–June 2021. Valley Forge, Pa.: The Vanguard Group; available at [https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/ClimateSHP\\_1841017\\_092021\\_online.pdf](https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/ClimateSHP_1841017_092021_online.pdf).

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<sup>2</sup> Schlömer, Steffen, Thomas Bruckner, Lew Fulton, Edgar Hertwich, Alan McKinnon, Daniel Perczyk, Joyashree Roy, Roberto Schaeffer, Ralph Sims, Pete Smith, and Ryan Wiser, 2014. Annex III: Technology-Specific Cost and Performance Parameters. *Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*, p. 1335. Cambridge, United Kingdom, and New York, N.Y.: Cambridge University Press; available at [https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc\\_wg3\\_ar5\\_annex-iii.pdf](https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_annex-iii.pdf).

<sup>3</sup> International Energy Agency, 2019. *Global Energy & CO2 Status Report 2019*. Paris: International Energy Agency; available at <https://www.iea.org/reports/global-energy-co2-status-report-2019>.

<sup>4</sup> Powering Past Coal Alliance, 2021. PPCA Members. Accessed December 15, 2021; available at <https://www.poweringpastcoal.org/members?/about/members>.

<sup>5</sup> United Nations Framework Convention on Climate Change, 2021. *Decision -/CP.26. Glasgow Climate Pact*; available at [https://unfccc.int/sites/default/files/resource/cop26\\_aav\\_2f\\_cover\\_decision.pdf](https://unfccc.int/sites/default/files/resource/cop26_aav_2f_cover_decision.pdf).

<sup>6</sup> Masson-Delmotte, Valérie, Panmao Zhai, Hans-Otto Pörtner, Debra Roberts, Jim Skea, Priyadarshi R. Shukla, Anna Pirani, Wilfran Moufouma-Okia, Clotilde Péan, Roz Pidcock, Sarah Connors, J.B. Robin Matthews, Yang Chen, Xiao Zhou, Melissa I. Gomis, Elisabeth Lonnoy, Tom Maycock, Melinda Tignor, and Tim Waterfield (eds.), 2018. *Global Warming of 1.5°C. An IPCC Special Report on the Impacts of Global Warming of 1.5°C Above Pre-industrial Levels and Related Global Greenhouse Gas emission Pathways, in the Context of Strengthening the Global Response to the Threat of Climate Change, Sustainable Development, and Efforts to Eradicate Poverty*. Geneva, Switzerland: Intergovernmental Panel on Climate Change; available at [https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15\\_Full\\_Report\\_High\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf).